

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58133

CITY OF CHENEY

Spokane County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: March 28, 1997

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CITY OF CHENEY
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Mayor
City of Cheney
Cheney, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of the City of Cheney, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Cheney is the responsibility of the city's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the city's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the city's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the city's management in our report on general requirements and in the Schedule of Federal Findings.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

October 25, 1996

CITY OF CHENEY
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

Mayor
City of Cheney
Cheney, Washington

We have audited the general-purpose financial statements of the City of Cheney, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the city, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Federal Findings is a material weakness.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the city's management in our report on general requirements and the Schedule of Federal Findings.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

October 25, 1996

CITY OF CHENEY
Spokane County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The City Should Strengthen Controls And Procedures Over Employee Benefits

The internal control procedures over the city's employee benefits programs need improvement. We noted the following conditions during our audit:

- a. The city does not have the benefits package identified or approved in the personnel policy and procedures manual.
- b. The city does not maintain subsidiary records to support the changes to the Deferred Compensation Fund for individual employee contributions.

RCW 43.09.2 states in part:

The accounts shall show the . . . documents kept or required to be kept necessary to isolate and prove the validity of every transaction . . .

Volume 1, Part 3, Chapter 1, pages 15 and 17-18 of the *Budgeting, Accounting and Reporting System* (BARS) manual requires the following for entity internal control systems:

An internal control system consists of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Internal control weaknesses, such as described, and the lack of accounting policies and procedures do not provide adequate protection of public assets. Weak internal controls increase the potential for accounting errors and the occurrence of fraud without timely detection by management.

We recommend that the city should strengthen controls and procedures over employee benefits.

Auditee's Response

The City has established procedures for identifying benefits in the personnel policy and procedures manual. Subsidiary records for deferred compensation funds will be completed by the first quarter of 1997.

2. The City Should Improve Security Access Controls Over Its Computer Systems

The following weaknesses in the city's security over access to the computer system reported in the prior audit existed at audit date:

- a. The city does not have a formal authorization procedure for establishing new users on the system.
- b. Some users are not restricted to their program within the system. They have the capability to change initial settings which define whether the user can change the program, initial menu or current library.
- c. All users can leave their terminals indefinitely and the system stays active, thus allowing unauthorized access during their absence.
- d. All users can be signed onto more than one terminal.
- e. The city does not have a method for terminating all users leaving city employment.

The State Auditor's Office, *General Controls and Application Controls for Computer Systems*, Bulletin 3, states:

Access to program documentation should be limited to those persons requiring it in the performance of their duties. Program documentation contains information necessary to make changes to programs, data file structures, programmed control criteria, and other elements of applications. As such, it should be subjected to restricted access.

Access to data files and programs should be limited to those authorized to process or maintain particular systems. This control could be implemented through a "library" function applied to both data and program files. The library function can be carried out through the use of library personnel as well as librarian software systems.

The *Electronic Data Processing Auditor's Foundations, Control Objectives*, Section 3.4.1, states:

Access to the computing resources of the Systems Services Department should be limited to those individuals with a documented and authorized need for such access. Layers of logical and physical access controls should be provided to protect the department's computing resources against unauthorized use or modification, damage, or loss.

Access controls are designed to limit access to documentation, files, and programs. A weakness in or lack of such controls increases the opportunity for unauthorized modifications to files and programs, as well as misuse of the computer hardware. Weaknesses in systems software, program, and data security significantly decrease the integrity of the system. Proper access controls will assist in the prevention or detection of deliberate or accidental errors caused by improper use or manipulation of data files, unauthorized or incorrect use of computer programs, and/or improper use of computer resources.

Management is currently in the process of establishing proper security control policies and procedures. The new policies and procedures were not implemented until after the end of our fieldwork and, therefore, were not reviewed during our audit.

We recommend that management establish and implement controls and procedures which would provide adequate security access for the city's computer operation.

Auditee's Response

Security access controls for authorization, approval and updating was completed by the City in November 1996.

3. The City Should Complete A Disaster Recovery Plan

The city does not have a disaster recovery plan for its computer operation system. Application and operating system software, as well as programs and other documentation, are not stored at an off-site facility. Nor are supplies of warrants and other critical nonstandard forms stored off-site.

The *Electronic Data Processing Auditor's Foundations*, Control Objectives, Section 3.5.1, states:

Adequate plans should exist for the back up of critical computer resources and for the recovery of information services following unanticipated interruptions of them.

A written plan for processing critical application programs in the event of a major hardware or software failure, or temporary or permanent destruction of facilities, should be maintained.

The city's management was informed of this in prior audits, and is progressing in the development of a disaster recovery plan. The lack of an adequate backup and recovery plan increases the risk of losing data, programs, and documentation in the event of a disaster. Examples of lost information would be financial records such as receipts, fixed assets, payables, grants, and operational records. The absence of a disaster plan will also delay the reestablishment of support for critical operations.

We recommend that the city complete a disaster recovery plan for its computer operation. This plan should provide for the processing of critical application programs in the event of a major hardware or software failure.

Auditee's Response

The City has established policy for a Disaster Recovery Plan and will have procedures in place the first quarter of 1997.

4. The City Should Strengthen Controls And Procedures Over The Voucher System

Our examination of the city's voucher system, which controls all city expenditures except for the payroll, disclosed deficiencies in both internal controls and accounting procedures. The following weaknesses were noted in the prior audit and found to still exist:

- a. Vouchers were paid based on photocopies of invoices. We found this to exist in 33 percent of the vouchers tested in the current audit.
- b. The auditing officer's certification signature was rubber stamped on the voucher by the accounts payable clerk. The auditing officer did not review most vouchers. These procedures have not changed. In addition, blank voucher forms are prestamped with the auditing officer's certification signature.
- c. Supporting documentation was missing from several of the vouchers tested.
- d. The city did not pay all expenditures by the warrant approval process. We found several instances in the current audit where the city paid an invoice improperly through the treasurer's checking account.

We found this additional weakness to exist in the current audit:

- City policy and procedures require purchase orders for purchases exceeding a stated dollar amount. These amounts are different for each type of fund. We noted that purchase orders were not used consistently where required by policy.

RCW 43.09.200 states in part:

The accounts shall show the . . . documents kept or required to be kept, necessary to isolate and prove the validity of every transaction

Internal control weaknesses, such as described, do not provide adequate protection of public assets. Weak internal controls increase the potential for accounting errors and the occurrence of fraud without timely detection by management. The city's decentralized voucher system contributed to the weaknesses noted.

We recommend that management continue to establish and implement internal controls and accounting procedures to strengthen their voucher system.

Auditee's Response

Policies and procedures for contracts have been reviewed and updated. The task of inventory for all contracts will be completed the first quarter of 1997.

5. The City Should Properly Use Contracts For Services

During our prior examination, the city was not able to provide us with 8 of the 15 contracts we requested. In the current audit, we found that, of those 8, the city had not yet obtained contracts in 4 instances. We found the city did not have contracts for use of legal services, engineering services, and a lease agreement for building rental.

We requested 11 additional contracts during the current examination. The city was unable to provide us with 6 of these contracts. We found the city did not have contracts for use of other governmental agencies' services, computer equipment leasing and support, garbage collection, and copier leases.

RCW 39.34.030 states in part:

Appropriate action by ordinance, resolution or otherwise pursuant to law of the governing bodies of the participating public agencies shall be necessary before any such agreement may enter into force.

RCW 39.34.080 states in part:

. . . each public agency entering into the contract is authorized by law to perform: PROVIDED, that such contract shall be authorized by the governing body of each party to the contract. Such contract shall set forth fully the purposes, powers, rights, objectives, and responsibilities of the contracting parties.

The city has not established centralized control over issuance and execution of contracts and/or agreements, or leases. In response to our prior finding, the city has established procedures for monitoring of existing agreements. The city management and administration were not aware of all legal contracts and/or agreements by which the city is legally obligated. The city plans to establish a policy to assure contracts are properly used when acquiring services.

We recommend city management and administration continue to establish and implement procedures which will assure the proper use of contracts for acquiring services.

Auditee's Response

Policies and procedures for contracts have been reviewed and updated. The task of inventory for all contracts will be completed the first quarter of 1997.

6. City Officials Should File Financial Statements On A Timely Basis

City officials were late in preparing their financial statements for 1995. Complete financial statements were filed with the State Auditor's Office in October 1996.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor.

Such reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year.

Officials stated that the report was filed late because of the extra resources required to complete conversion to a new financial system.

Late annual financial statements result in decreased accountability to city officials, the public, and other interested parties.

We recommend that city officials develop procedures to ensure that annual reports are filed in a timely manner.

Auditee's Response

We anticipate, with the computerizing of the preparation of the Financial Statements, that the reports will be submitted in a timely manner.

Auditor's Concluding Remarks

We appreciate the city's response to our audit findings. We will review these areas in our next audit.

CITY OF CHENEY
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Mayor
City of Cheney
Cheney, Washington

We have audited the accompanying general-purpose financial statements of the City of Cheney, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Cheney, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 1996, on our consideration of the city's internal control structure and a report dated October 25, 1996, on its compliance with laws and regulations.

Brian Sonntag, CGFM
State Auditor

October 25, 1996

CITY OF CHENEY
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance**

Mayor
City of Cheney
Cheney, Washington

We have audited the general-purpose financial statements of the City of Cheney, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the City of Cheney taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag, CGFM
State Auditor

October 25, 1996

CITY OF CHENEY
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Mayor
City of Cheney
Cheney, Washington

We have audited the general-purpose financial statements of the City of Cheney, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996.

We have applied procedures to test the city's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirement was determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Federal Findings.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

October 25, 1996

CITY OF CHENEY
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs**

Mayor
City of Cheney
Cheney, Washington

We have audited the general-purpose financial statements of the City of Cheney, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996.

We also have audited the city's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to planning, filtration testing, vouchers, right-of-way, extensions, and sampling and testing as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments* and *Catalog of Federal Domestic Assistance*
- claims for advances and reimbursements
- amounts claimed or used for matching

The management of the city is responsible for the city's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the city's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the City of Cheney complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also

serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

October 25, 1996

CITY OF CHENEY
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions**

Mayor
City of Cheney
Cheney, Washington

We have audited the general-purpose financial statements of the City of Cheney, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996.

In connection with our audit of the financial statements of the city and with our consideration of the city's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to one nonmajor federal financial assistance program for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the City of Cheney had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

October 25, 1996

CITY OF CHENEY
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Mayor
City of Cheney
Cheney, Washington

We have audited the general-purpose financial statements of the City of Cheney, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated October 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the city complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the city's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated October 25, 1996.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Payroll
 - Inventory control
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **General Requirements**
 - Relocation assistance and real property acquisition
- **Specific Requirements**

Eligibility

During the fiscal year ended December 31, 1995, the city expended 87 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the city's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the city's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

October 25, 1996

CITY OF CHENEY
Spokane County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Federal Findings

1. An Accounting System For Fixed Assets Should Be Developed

As reported in prior audits, the city has not developed a system of accounting for fixed assets as required by federal directives. Nor are they following their own fixed asset accounting policies. There are no complete detailed subsidiary listings of the utilities' fixed assets. Annual physical inventories of the city's fixed assets are incomplete; documentation is insufficient to verify the existence, location, and condition of property owned by the city. The city's fixed assets are not tagged.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, issued by the Office Management and Budget, March 1988, requires in Subpart C, Section __.32(d)(1):

Property records must be maintained that include a description of the property, serial number or other identification number, the source of the property, who holds the title, the acquisition date, and the cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

The city's management is aware of these deficiencies. Discussion with the city's finance director indicates that the city is still in the process of implementing an improved system of accounting for the city's fixed assets. Without a fixed assets accounting system the city is unable to fix responsibility for the safeguarding, or establish responsibility for custody and proper use of these assets. The city is also unable to prepare complete and accurate financial reports, meet federal requirements, and adhere to the city's established requirements.

We again recommend the city implement a system of accounting for fixed assets.

Auditee's Response

The City is in an ongoing process to establish fixed asset accounting and control and would like to have it completed in the near future.

2. The City Should Integrate Grant Accounting Into Its General Accounting System

The city has not integrated grant accounting into the city's general accounting system. Although all federal funds received are uniquely coded for each grant, the general accounting system is not providing grant program expenditure identification.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Subpart C., Section__20,(b)(2), Accounting Records, states in part:

Grantees and Subgrantees must maintain records which adequately identify the source and application of funds provided for financial-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income

OMB Circular A-128, *Audits of State And Local Governments*, paragraph 8..b(1) states in part:

In order to determine which major programs are to be tested for compliance, State and local governments shall identify in their accounts all Federal funds received and expended and the programs under which they were received

The City of Cheney accounts for transactions and prepares its financial statements on the basis of accounting prescribed by Washington State statutes and the *Budgeting, Accounting, and Reporting System* (BARS) manual as prescribed by the State Auditor. According to BARS, Part 3, Chapter 5, Section A:

1. Grant accounting must be integrated with a municipality's general accounting records . . .
2. Grant accounting must provide for a segregation, by program/activity/function within each grant, of the following . . .
 - d. Expenditures already disbursed . . .
 - f. Non-federal share of costs

Because of the lack of an integrated grant accounting system, we could not trace expenditures reported on the Schedule of Financial Assistance directly to the city's general accounting system, nor were we able to gain sufficient assurance that eligible grant expenditures are not charged to more than one grant. However, all grant revenues are appropriately reported; thus, we are reasonably certain that the Schedule of Financial Assistance lists all amounts and sources of grants received by the city.

We recommend city officials integrate all grant accounting with its financial accounting system.

Auditee's Response

The City is making every effort to integrate grant accounting by program/activity/function within each grant as part of the general accounting system.

Auditor's Concluding Remarks

We appreciate the city's response to our audit findings. We will review these areas in our next audit.

CITY OF CHENEY
Spokane County, Washington
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. The City Should Strengthen Controls And Procedures Over The Payroll System
Resolution: The finding has not been resolved. See Finding 1.
2. The City Should Improve Security Access Controls Over its Computer Systems
Resolution: The finding has not been resolved. See Finding 2.
3. The City Should Comply With Bond Covenants
Resolution: The finding has been resolved.
4. The City Should Develop A Disaster Recovery Plan
Resolution: The finding has not been resolved. See Finding 3.
5. The City Should Strengthen Controls And Procedures Over The Voucher System
Resolution: The finding has not been resolved. See Finding 4.
6. The City Should Properly Use Contracts For Services
Resolution: The finding has not been resolved. See Finding 5.
7. The City Does Not Have Established Information Engineering Controls
Resolution: The finding has been resolved.

The federal finding contained in the prior audit report was resolved as follows:

1. The City Needs To Improve Controls Over Its Fixed Asset Accounting

Resolution: *The finding has not been resolved. See Federal Finding 1.*